

# Operation Hope, Inc.

Consolidated Financial Report

December 31, 2013 and 2012

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

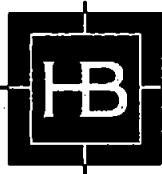
Release Date OCT 15 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Operation Hope, Inc.  
Los Angeles, California

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Operation Hope, Inc. (a California nonprofit organization) (the Organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained on Government Audit Standards issued by the Comptroller of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

We have previously audited Operation Hope, Inc. December 31, 2012 financial statements and our report dated November 11, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on pages 4 and 5 for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Operation Hope, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of Operation HOPE, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Operation HOPE, Inc.'s internal control over financial reporting and compliance.

*Hutchinson and Bloodgood LLP*

June 30, 2014

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

**Consolidated Statements of Financial Position**  
**December 31, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 441,696	\$ 698,060
Grants receivable	849,957	558,971
Promises to give	4,338,754	4,933,944
Prepaid expenses and other assets	1,013,409	630,082
Property, leasehold improvements and equipment, net	<u>2,440,294</u>	<u>2,107,829</u>
Total assets	<u>\$ 9,084,110</u>	<u>\$ 8,928,886</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 525,830	\$ 760,243
Accrued payroll and other compensation	361,176	338,531
Line of credit	<u>582,900</u>	<u>859,954</u>
Total liabilities	<u>1,469,906</u>	<u>1,958,728</u>
Commitments and contingencies (Notes 10 and 12)		
Net assets		
Unrestricted	(3,238,908)	(3,120,382)
Temporarily restricted	<u>10,853,112</u>	<u>10,090,540</u>
Total net assets	<u>7,614,204</u>	<u>6,970,158</u>
Total liabilities and net assets	<u>\$ 9,084,110</u>	<u>\$ 8,928,886</u>

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

**Consolidated Statement of Activities**

**Year Ended December 31, 2013**

**(With Summarized Totals for the Year Ended December 31, 2012)**

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
<b>REVENUE AND SUPPORT</b>				
Contributions, grants, and sponsorships	\$ 4,977,969	\$ 6,057,127	\$ 11,035,096	\$ 7,000,314
Contributed goods and services	2,368,831	638,168	3,006,999	3,824,176
Donated assets	--	1,043,719	1,043,719	--
Other revenue	70,636	--	70,636	34,888
Net assets released from restrictions	<u>6,976,442</u>	<u>(6,976,442)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>14,393,878</u>	<u>762,572</u>	<u>15,156,450</u>	<u>10,859,378</u>
<b>EXPENSES</b>				
Program services	<u>11,393,369</u>	<u>--</u>	<u>11,393,369</u>	<u>8,605,686</u>
Supporting services:				
General and administration	2,152,166	--	2,152,166	2,451,587
Fundraising	<u>966,869</u>	<u>--</u>	<u>966,869</u>	<u>1,537,699</u>
Total supporting services	<u>3,119,035</u>	<u>--</u>	<u>3,119,035</u>	<u>3,989,286</u>
Total expenses	<u>14,512,404</u>	<u>--</u>	<u>14,512,404</u>	<u>12,594,972</u>
Change in net assets	(118,526)	762,572	644,046	(1,735,594)
Net assets at the beginning of the year (as restated)	<u>(3,120,382)</u>	<u>10,090,540</u>	<u>6,970,158</u>	<u>8,705,752</u>
Net assets at the end of the year	<u>\$ (3,238,908)</u>	<u>\$ 10,853,112</u>	<u>\$ 7,614,204</u>	<u>\$ 6,970,158</u>

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

**Consolidated Statement of Functional Expenses**

**Year Ended December 31, 2013**

**(With Summarized Comparative Totals for the Year Ended December 31, 2012)**

	Program Services	Supporting Services			Total Expenses	
		Management and General	Fund Raising	Total Supporting Services	2013	2012
Printing	\$ 91,207	\$ 5,541	\$ 3,390	\$ 8,931	\$ 100,138	\$ 154,768
Communications	192,161	20,938	30,380	51,318	243,479	298,321
Computer expense	70,696	65,674	5,755	71,429	142,125	146,978
Contract labor	24,866	16,241	527	16,768	41,634	37,607
Donations	3,443	--	10,714	10,714	14,157	17,233
Equipment rental and purchase	104,657	26,621	11,800	38,421	143,078	136,732
Program and event expenses	355,614	24	7,929	7,953	363,567	442,516
Insurance	126,184	40,892	6,431	47,323	173,507	132,943
Mileage and parking	72,950	13,576	12,399	25,975	98,925	103,994
Office services and supplies	70,978	40,221	16,779	57,000	127,978	128,871
Other expenses	154,258	26,989	10,275	37,264	191,522	151,499
Payroll taxes	421,511	50,473	33,323	83,796	505,307	416,070
Postage	89,465	11,574	20,029	31,603	121,068	92,036
Professional fees	156,502	140,331	32,907	173,238	329,740	283,294
Public relations	20,031	8,035	510	8,545	28,576	7,516
Renovation	--	--	--	--	--	--
Rent	852,001	131,983	49,293	181,276	1,033,277	743,925
Repairs and maintenance	33,217	4,387	332	4,719	37,936	47,297
Salaries and benefits	5,514,094	713,978	553,595	1,267,573	6,781,667	6,022,553
Travel and entertainment	<u>234,655</u>	<u>3,615</u>	<u>111,805</u>	<u>115,420</u>	<u>350,075</u>	<u>277,916</u>
Total expenses before depreciation and amortization, in-kind, and interest	8,588,490	1,321,093	918,173	2,239,266	10,827,756	9,642,069
Depreciation and amortization	702,671	22,685	6,236	28,921	731,592	710,551
In-kind						
Advertising	165,200	525,883	8,000	533,883	699,083	831,554
Equipment usage	13,236	65,000	9,460	74,460	87,696	44,554
Professional services	1,215,633	116,643	--	116,643	1,332,276	719,288
Program service expense	436,722	--	25,000	25,000	461,722	313,947
Rent	271,417	77,722	--	77,722	349,139	291,848
Interest expense	--	23,140	--	23,140	23,140	41,161
Total expenses	<u>\$ 11,393,369</u>	<u>\$ 2,152,166</u>	<u>\$ 966,869</u>	<u>\$ 3,119,035</u>	<u>\$ 14,512,404</u>	<u>\$ 12,594,972</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 644,046	\$ (1,735,594)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	731,592	710,551
Increase (decrease) in provision for uncollectible promises to give	(152,739)	82,703
Increase (decrease) in discount on unconditional promises to give	44,752	(5,327)
Donated assets	(1,043,719)	—
Decrease (increase) in:		
Grants receivable	(290,986)	(228,944)
Promises to give	703,177	1,301,605
Prepaid expenses and other assets	(383,327)	178,804
Increase (decrease) in:		
Accounts payable and accrued liabilities	(234,413)	412,750
Accrued payroll and other compensation	22,645	(11,375)
Deferred revenue	—	(150,000)
Net cash provided by operating activities	<u>41,028</u>	<u>555,173</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(20,338)</u>	<u>(765,305)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	(277,054)	(90,046)
Payments on obligations under capital leases	<u>—</u>	<u>(4,303)</u>
Net cash used in financing activities	<u>(277,054)</u>	<u>(94,349)</u>
Net decrease in cash and cash equivalents	(256,364)	(304,481)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>698,060</u>	<u>1,002,541</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 441,696</u>	<u>\$ 698,060</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 23,140</u>	<u>\$ 41,161</u>



**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 1. NATURE OF ACTIVITIES**

Operation Hope, Inc. is a nonprofit public benefit organization, founded immediately following the civil unrest of April 29, 1992 in Los Angeles. Operation HOPE, Inc. is committed to the revitalization of under-served communities through the provision of economic empowerment, financial literacy, conversion programs and services. Operation HOPE, Inc. accomplishes its mission of converting community residents into community stakeholders through programs on economic education, financial literacy, credit counseling, budget creation, case management, small business technical assistance, homeownership counseling and emergency financial counseling services. Operation Hope, Inc. is headquartered at Wilshire Boulevard and Hope Street in the financial district of Downtown Los Angeles, California. Operation Hope, Inc. has regional operations in California, Illinois, New York, Washington D.C., Maryland, Michigan, Pennsylvania, Oregon, Georgia, Colorado, Florida, Louisiana, New Jersey, Alabama, Tennessee, and a foreign operation in South Africa. Among the programs offered by Operation Hope, Inc. are: Economic Education, Financial Literacy, Credit Counseling, Budget Counseling, Case Management, Business Technical Assistance, Homeownership and Small Business Loans, and Emergency Financial Counseling Services and Entrepreneur Education.

Hope Advisors LLC, a wholly-owned subsidiary of Operation Hope, Inc., was formed in 2007 to provide consulting services to organizations regarding joint ventures. Hope Advisors LLC had no operations during the years ended December 31, 2013 and 2012, and held no assets nor had any liabilities as of December 31, 2013 and 2012.

**Project 5117:** The mission of Project 5117 is to strengthen the economy by focusing on empowering those who earn less than \$50,000 a year. It is a mission that is supported by a broad range of services, from homeownership counseling, to credit card debt management, a program that helps those with low credit scores raise their score to 700, and a comprehensive entrepreneurship-training course called HOPE Business-In-A-Box.

**Project 5117 stands for:**

- **5 million youth empowered** with a new level of financial literacy through unique financial dignity education programs, that have successfully been taught in 3,500 schools across the country. The program ensures basic consumer protection education for a generation, while making smart cool, so they stay in school.
- **1 million of these empowered youth** will have an opportunity to become future entrepreneurs and local job creators through HOPE Business-In-A-Box Academies, supported by a 100-year partnership with the Gallup Organization. This effort powerfully reconnects education with aspiration in the lives of our youth. By the year 2020 there will be 2,000 HOPE Business-In-A-Box Academies across the United States, in both urban and rural communities.
- **1,000 first-ever bottom-up empowerment centers, branch banks with HOPE Inside** units spread throughout America and 5,000 certified locations containing "HOPE Inside Plus" units. This plan is consistent with the long-term growth strategies of top regional and money-center banks, and appreciates the under-utilized, 100,000 unit branch banking network across America.

**OPERATION HOPE, INC.**  
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Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 1. NATURE OF ACTIVITIES (Continued)**

**Project 5117 stands for (continued):**

- **700 Credit Score Communities** will be attained through the expansion of HOPE Inside and "HOPE Inside Plus" locations. These communities will have access to credit counseling, education on credit and money management, and debt management, offered in an individual or group setting.

With the launch of this next phase of Operation HOPE's work, which operates at the level of national scale, and measurable local impact -- community-by-community and across the country - we are now injecting into society a pragmatic and tangible plan of action, which everyone can play a meaningful role in. It is our way of answering some of the questions posed by Dr. King in the Poor People's Campaign, in both word and deed.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation:** The financial statements consolidate the accounts of Operation Hope, Inc. and Hope Advisors LLC (hereafter, collectively referred to as HOPE). Any interorganization accounts and transactions have been eliminated in the consolidation.

**Basis of Accounting:** HOPE's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

**Financial Statement Presentation:** HOPE is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, HOPE is required to present a statement of cash flows. The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's consolidated financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of changes in revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Net Assets:** The assets, liabilities and net assets of HOPE are reported within net asset categories as follows:

*Unrestricted Net Assets* - Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purposes in performing the primary objectives of HOPE.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that expire either by passage of time and/or can be fulfilled or removed by actions of HOPE pursuant to those stipulations. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions. Temporarily restricted contributions received and spent in the same year have been recorded as unrestricted support.

*Permanently Restricted Net Assets* - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of HOPE pursuant to those stipulations. The donated resources must be maintained permanently while permitting HOPE to use or expend part of all of the income derived from the donated assets. At December 31, 2013 and 2012, HOPE had no permanently restricted net assets.

**Revenue Recognition:** HOPE recognizes unconditional promises to give, contributions, grants and sponsorships as revenue in the period received and are reported as increases in the appropriate category of net assets. Cash payments from multi-year unconditional promises to give are scheduled in even payments over the life of the promises which are expected to cover HOPE's actual expenses on a year-to-year basis. Contributions where donor restrictions are met within the same fiscal year as the gifts are received are included in unrestricted revenues. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of donation. HOPE imposes time restrictions on contributed long-lived assets that expire over the assets' expected useful lives. Contributions to be received in future periods are discounted at an appropriate discount rate.

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Expiration of Donor-Imposed Restrictions:** The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction substantially expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. HOPE records the contribution as unrestricted support when the donor-imposed restrictions are met in the same period as received. HOPE also releases the restrictions on contributions of cash or other assets received for the acquisitions of long-lived assets when the long lived assets are placed into service.

**Cash and Cash Equivalents:** HOPE considers cash on deposit, temporary investment and all highly-liquid financial instruments with original maturities of three months or less to be cash equivalents.

**Grants Receivable:** HOPE receives numerous grants from federal agencies that are not considered contributions under accounting principles generally accepted in the United States of America. HOPE recognizes income from these grants as revenue and support only to the extent that expenditures incurred qualify for reimbursements under the terms and conditions of the grant agreements.

**Promises to Give:** Unconditional promises to give involve fair value measurement only upon initial recognition. Unconditional promises to give, which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates approximating the rate of return on U.S. government securities with similar maturities.

Unconditional promises to give, recorded in 2010 through 2013 which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates equal to the borrowing rates from a local banking institution which would be extended to any other similar nonprofit organizations. Amortization of the discount is included in contribution revenue. HOPE provides for an allowance for doubtful receivables based on donor reputation and past giving history.

**Property, Leasehold Improvements and Equipment:** Property, leasehold improvements and equipment are carried at cost if purchased, or if donated, at fair value on the date of donation. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$2,500 and the useful life is greater than one year. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	5 to 10 years (or lease term if shorter)
Furniture and fixtures	7 years
Computer and office equipment	3 to 5 years

**OPERATION HOPE, INC.**  
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Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property, Leasehold Improvements and Equipment (continued):** Renewals and betterments that materially extend the life of an asset are capitalized. Expenditures for maintenance and repairs are charged against operations. When property and equipment is sold, retired, or otherwise disposed of, the cost and the related accumulated depreciation and amortization are eliminated from the accounts and any resulting gains or loss is included in current operations.

**Accounting for Impairment of Long-Lived Assets:** HOPE reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended December 31, 2013 and 2012, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**Deferred Revenue:** Grant revenue paid to HOPE in advance is recorded as deferred revenue. Such revenue will be recognized in the period expenditures are incurred.

**Contributed Goods and Services:** The value of significant donated goods and services and free use of long-lived assets and facilities is reflected as contributions in the accompanying consolidated financial statements at the estimated fair value of such goods and services at the date of contribution.

Contributed services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During the years ended December 31, 2013 and 2012, HOPE received contributed goods that included the use of property and advertising. HOPE also received contributed legal services. Total in-kind contributed goods and services received and included in the accompanying consolidated statement of activities amounted to \$3,006,999 and \$3,824,176 for the years ended December 31, 2013 and 2012, respectively.

**Advertising Costs:** Advertising costs are expensed as incurred. Total advertising expenses amounted to \$699,083 and \$831,554 for the years ended December 31, 2013 and 2012, respectively. All advertising expenses were from in-kind contributions.

**Functional Allocation of Expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and detailed in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate of time spent on various programs and services.

**OPERATION HOPE, INC.**  
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Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes:** HOPE is a nonprofit organization qualifying under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. As such, except for taxes pertaining to unrelated business income, HOPE is exempt from federal and state income taxes. No provision has been made for income taxes as HOPE had no unrelated business income. HOPE is not considered a private foundation. Accounting principles generally accepted in the United States of America requires HOPE's management to evaluate tax positions taken by them and recognize a tax liability if HOPE has taken uncertain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. HOPE believes that it has appropriate support for any tax provision taken and, as such, does not have any uncertain tax positions that would require recognition or disclosure at December 31, 2013. There are no years that remain open and are subject to examination by jurisdiction prior to 2010 and 2009 for federal and state, respectively.

**NOTE 3. PROMISES TO GIVE**

Promises to give at December 31 and were expected to be received as follows:

	2013	2012
Within one year	\$ 3,523,860	\$ 3,311,008
Within two to five years	<u>1,050,000</u>	<u>1,966,029</u>
	4,573,860	5,277,037
Less discount to reflect contributions receivable at present value	(127,136)	(82,384)
Less allowance for uncollectible pledges	<u>(107,970)</u>	<u>(260,709)</u>
	<u>\$ 4,338,754</u>	<u>\$ 4,933,944</u>

Promises to give at December 31 included donations from the following organizations whose representatives also serve or served as members of HOPE's Board of Directors:

	2013	2012
Ares Management	\$ --	\$ 100,000
Popular Community Bank	500	255,000
US Bancorp - U.S. Bank	40,000	310,000
Bank of the West	400,000	800,000
Union Bank	125,000	225,000
LPL Financial	--	400,000
SunTrust Bank, Central	<u>1,000,000</u>	<u>--</u>
	<u>\$ 1,565,500</u>	<u>\$ 2,090,000</u>

**OPERATION HOPE, INC.**  
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Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 4. PREPAID EXPENSES AND OTHER ASSETS**

At December 31 prepaid expenses and other assets are comprised of the following:

	2013	2012
Prepaid insurance and other expenses	\$ 122,181	\$ 82,125
Travel advances to employees	5,500	5,500
Rent contributions receivable	814,721	469,940
Deposit	<u>71,007</u>	<u>72,517</u>
	<u>\$ 1,013,409</u>	<u>\$ 630,082</u>

HOPE received in-kind contributions for the use of buildings for HOPE programs through 2019. HOPE has recorded these in-kind contributions as rent contributions receivable and amortizes annually over the life of the rent. The amount of amortized in-kind rent expenses are \$254,565 and \$231,912 for 2013 and 2012, respectively.

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	2013	2012
Leasehold improvements	\$ 2,160,811	\$ 2,150,472
Furniture and fixtures	106,948	106,948
Computer equipment	<u>4,476,284</u>	<u>3,422,565</u>
	6,744,043	5,679,985
Less accumulated depreciation and amortization	<u>(4,303,749)</u>	<u>(3,572,156)</u>
	<u>\$ 2,440,294</u>	<u>\$ 2,107,829</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 amounted to \$731,592 and \$710,551, respectively.

**OPERATION HOPE, INC.**  
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Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 6. LINE OF CREDIT**

HOPE has a revolving line of credit agreement (the Agreement) with a bank. The Agreement provides for maximum borrowings up to \$1,000,000. The line carries a variable interest rate at the bank's reference rate (3.25% at December 31, 2013) plus 1% with interest rate floor at 4.25%. Interest was payable on a monthly basis. The outstanding balance was \$582,900 and \$859,954 as of December 31, 2013 and 2012, respectively. Interest expense on the line of credit was \$23,140 and \$41,161 for the years ended December 31, 2013 and 2012, respectively. All borrowings under the Agreement were collateralized by all the property and assets of HOPE and the assignment of the life insurance policy on the life of HOPE's Chief Executive Officer. The line of credit expires April 30, 2015.

The Agreement contains various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio.

**NOTE 7. CAPITAL LEASE**

HOPE leases certain furniture and equipment under agreements that are classified as capital leases. The costs of the furniture and equipment under the capital leases are included in the consolidated statements of financial position as property, leasehold improvements and equipment was \$202,581 at December 31, 2013 and 2012. Accumulated amortization of the leased furniture and equipment at December 31, 2013 and 2012 was \$148,774 and \$129,845, respectively. Amortization of assets under the capital lease is included in depreciation and amortization expense in the accompanying consolidated financial statements.

There are no future minimum lease payments required under the capital leases.

**NOTE 8. TEMPORARILY RESTRICTED NET ASSETS**

The following represents temporarily restricted net assets at December 31 that were restricted for the purposes indicated as follows:

	2013	As Restated 2012
Educational services and financial literacy	\$ 7,083,248	\$ 7,109,604
Passage of time	<u>3,769,864</u>	<u>2,980,936</u>
	<u>\$ 10,853,112</u>	<u>\$ 10,090,540</u>



**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 9. CONCENTRATION OF CREDIT RISK**

**Concentration of Cash Balances:** HOPE maintains its funds with a financial institution that insures non-interest bearing account cash balances of and up to \$250,000 as of December 31, 2013 through the Federal Deposit Insurance Corporation. HOPE maintains cash that may exceed insured limits as of December 31, 2013. HOPE performs on-going evaluations of the financial institution to limit its concentration of credit risk exposure. HOPE has not experienced any losses in such accounts and management believes HOPE is not exposed to any significant credit risk related to cash. Effective January 1, 2013, the bank cash balances are insured for up to \$250,000 per financial institution.

**Concentration of Grants Receivable:** The financial instruments which potentially subject HOPE to credit risk are primarily grants receivables. The primary grants receivable balance outstanding at December 31, 2013 consists of government contracts receivable due from other nonprofit, state and federal granting agencies. Concentration of credit risks with respect to these receivables is limited, as the majority of HOPE's receivable consist of earned fees from contract programs granted by governmental agencies.

**Major Donors:** For the years ended December 31, 2013 and 2012, HOPE received \$4,477,823 and \$3,551,906, respectively, from four donors, which represented approximately 30% and 36%, respectively, of total revenue and support. Promises to give included \$1,375,727 and \$310,000 from these donors at December 31, 2013 and 2012, respectively.

**NOTE 10. COMMITMENTS**

**Operating Leases:** At December 31, 2013, HOPE has leased under various noncancelable operating leases office spaces expiring on various dates through January 2018. Certain leases require HOPE to pay its prorata share of operating expenses, insurance and property taxes. Some leases also require the annual rent to be adjusted according to the change in the Consumer Price Index. HOPE also has the option to extend the term of the lease for an additional five-year period upon the expiration date of some of the leases. Subsequent to December 31, 2013, HOPE terminated two of its office space leases. Both termination agreements required termination payments, one of which is in the form of a promissory note payable in installments through August 2017. Future minimum lease payments, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,		
2014	\$	515,995
2015		275,364
2016		158,729
2017		163,503
2018		<u>13,995</u>
	\$	<u>1,127,586</u>

Rent expense for the years ended December 31, 2013 and 2012 amounted to \$1,033,277 and \$743,925, respectively.

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 11. EMPLOYEE BENEFIT PLAN**

HOPE has a 401k plan (the Plan) which covers substantially all employees except for those who are members of a collective bargaining unit and non-resident aliens. Eligible employees must have completed 90 days of service. Employees may elect to make salary deferrals subject to the annual contribution limitation set by Internal Revenue Code. HOPE may make matching contributions that equal to a percentage of employees' salary deferrals determined annually. HOPE may also make additional discretionary contributions to the Plan on an annual basis. HOPE made contributions in the amount of \$49,615 and \$51,135 to the Plan during the years ended December 31, 2013 and 2012, respectively.

**NOTE 12. CONTINGENCIES**

Certain federal grants which HOPE administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although HOPE expects such amounts, if any, would not have a significant impact of the financial position of HOPE.

**NOTE 13. FAIR VALUE MEASUREMENT**

Fair value is determined based on assumptions that a market participant would use in pricing an asset or liability. Measurements of fair value are classified within a hierarchy based upon valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

*Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

*Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

**OPERATION HOPE, INC.**  
**(A Nonprofit Organization)**

Notes to Consolidated Financial Statements  
December 31, 2013 and 2012

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**NOTE 13. FAIR VALUE MEASUREMENT (Continued)**

Unconditional promises to give are measured using present value techniques that consider historical trends of collection, the type of donor and market rate assumptions. Unconditional promises to give are reported utilizing Level 2 inputs.

	Fair Value Measurements Using			Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
At December 31, 2013				
Promises to give, net	\$ <u>          --          </u>	\$ <u>4,338,754</u>	\$ <u>          --          </u>	\$ <u>4,338,754</u>
At December 31, 2012				
Promises to give, net	\$ <u>          --          </u>	\$ <u>4,933,944</u>	\$ <u>          --          </u>	\$ <u>4,933,944</u>

**NOTE 14. RESTATEMENT OF NET ASSETS**

The beginning balances of unrestricted and temporarily restricted net assets have been restated. The restatement resulted from a timing difference in the release of restrictions for financial statement purposes. The cumulative effect of this restatement decreases the beginning balance of unrestricted net assets and increases the beginning balance of temporarily restricted net assets by \$4,563,250. This restatement has no effect on prior or current year change in net assets.

**NOTE 15. SUBSEQUENT EVENTS**

Management has evaluated its December 31, 2013 consolidated financial statements for subsequent events through June 30, 2014, the date of issuance of the consolidated financial statements. Except for the subsequent event discussed in Note 10, HOPE is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

# **Operation Hope, Inc.**

**Schedule of Expenditures of Federal Awards and Related Reports**

**Year Ended December 31, 2013**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Operation Hope, Inc.  
Los Angeles, California

We have audited the financial statements of Operation Hope, Inc. (a nonprofit corporation) which comprise the statement of financial position and the related statements of activities, functional expenses and cash flows as of and for the year ended December 31, 2013, and have issued our report thereon dated June 30, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Operation Hope, Inc.'s internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Operation HOPE, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Operation Hope, Inc.'s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies in internal control over financial reporting. These are reported as findings 2013-1 and 2013-2.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Operation Hope, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

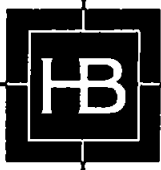
Operation Hope, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of financial statement findings. We did not audit Operation Hope, Inc.'s response and, accordingly, we express no opinion on it.

### ***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of Operation HOPE's internal control on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Operation Hope, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hutchinson and Bloodgood LLP*

June 30, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of  
Operation Hope, Inc.  
Los Angeles, California

***Report on Compliance for Each Major Federal Program***

We have audited Operation Hope, Inc.'s (a nonprofit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Operation Hope, Inc.'s major federal programs for the year ended December 31, 2013. Operation Hope, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs..

***Management's Responsibility***

Operation Hope, Inc.'s management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Operation Hope, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Operation Hope, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Operation Hope, Inc.'s compliance with those requirements.

***Opinion***

In our opinion, Operation Hope, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.



### ***Report on Internal Control Over Compliance***

Management of Operation Hope, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Operation Hope, Inc.'s internal control over compliance with the types that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Operation Hope, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal controls over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control over compliance and the results of that testing, based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the financial statements of Operation Hope, Inc. as of and for the year ended December 31, 2013, and have issued our report thereon dated June 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of Operation Hope, Inc.'s audit committee, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Hutchinson and Bloodgood LLP*

June 30, 2014

**OPERATION HOPE, INC.**

Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2013

<b>Federal Grantor /Pass-through Grantor /Program Title</b>	<b>Grant Period</b>	<b>Contract and/or Pass-Through Grantor's Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Commerce</b>				
Economic Development Administration				
Economic Adjustment Assistance	4/8/11-3/31/14	04-79-06478	11.307	\$ 257,094
Economic Adjustment Assistance	4/1/12-4/1/14	01-79-14176	11.307	164,690
Economic Adjustment Assistance	9/30/11-9/30/13	01-79-14108	11.307	192,918
Economic Adjustment Assistance	3/26/13-6/25/14	01-79-14266	11.307	366,950
Economic Adjustment Assistance	2/19/13-2/18/15	04-79-06709	11.307	<u>124,294</u>
<b>Total U.S. Department of Commerce</b>				<u><b>1,105,946</b></u>
<b>U.S. Department of Housing and Urban Development</b>				
Louisiana Innovation Loan and Technical Assistance Program				
Community Development Block Grants	2/11/11-1/31/13	P.L. 109-148, 109-234	14.228	400,861
Housing Counseling program	1/1/13-9/30/13	GHUD 13	14.169	<u>6,631</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u><b>407,492</b></u>
<b>U.S. Department of the Treasury</b>				
Rural Community Assistance Corporation				
National Foreclosure Mitigation Counseling Program	7/1/11-6/30/12	NFMC/CALHFA 0042-12	21.000	46,851
National Foreclosure Mitigation Counseling Program	8/21/13-12/31/13	GRCACR7	21.000	2,395
National Foreclosure Mitigation Counseling Program	7/23/12-9/30/13	GRCACKY	21.000	9,553
Florida Housing Finance Corp.				
National Foreclosure Mitigation Counseling Programs	7/1/12-12/31/12	GFHFC12	21.000	25,796
National Foreclosure Mitigation Counseling Programs	7/15/13-12/31/13	GFHFC13	21.000	10,345
National Community Reinvestment Corporation				
Emergency Homeowners' Loan Program EHLP	9/15/11-9/15/14	GNCRCCE	21.000	37,471
National Foreclosure Mitigation Counseling Program	8/21/13-12/31/13	GRCACR7	21.000	<u>58,052</u>
<b>Total U.S. Department of the Treasury</b>				<u><b>190,463</b></u>
<b>Total expenditures of federal awards</b>				<u><b>\$ 1,703,901</b></u>

The accompanying notes are an integral part of this schedule.

**OPERATION HOPE, INC.**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2013

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2. AWARD LISTED BY CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER**

U.S. Department of Commerce	11.307	\$ 1,105,946
U.S. Department of Housing and Urban Development	14.228	400,861
U.S. Department of Housing and Urban Development	14.169	6,631
U.S. Department of the Treasury	21.000	<u>190,463</u>
		<u>\$ 1,703,901</u>

**OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013

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**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ None
- Significant deficiencies identified that are not considered to be material weakness(es)? ☒ Yes ☐ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ Yes ☒ No

Type of auditors' report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are required to  
be reported in accordance with section  
510(a) of OMB Circular A-133?

☐ Yes ☒ No

Identification of major program:

CFDA Number

11.307

Name of Federal Program or Cluster

Economic Adjustment Assistance

Dollar threshold used to distinguish between  
type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

## **OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013

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### **SECTION II – FINANCIAL STATEMENTS FINDINGS**

#### ***2013-1 Temporarily Restricted Net Assets***

##### *Condition*

The schedule of temporarily restricted net assets provided included several projects that were no longer in use and projects that were overspent. However, there were balances in related funds to allocate to the deficits.

##### *Criteria*

It is very important for Operation Hope, Inc. to be aware of the balances remaining in the restricted projects on an ongoing basis, negating the possibility of overspending a restricted account, which would result in unrestricted funds being spent on donor-funded projects.

##### *Context*

The schedule of temporarily restricted net assets has typically been prepared after year end. The schedule lists out all the temporarily restricted contributions by project area which are restricted by the various donors. The schedule then reports all the expenditures made by project area resulting in ending balances remaining to be spent in each of the temporarily restricted project areas.

##### *Effect*

The schedule of temporarily restricted net assets is not available for management review on a timely basis.

##### *Cause of Condition*

The schedule of temporarily restricted net assets has typically been prepared after year end and given to us near the end of our field work.

##### *Recommendation*

Procedures should be implemented to have the accounting department reconcile the schedule to the job cost reports. This update would require that all temporarily restricted revenues (on an accrual basis) be entered as well as the expenditures of temporarily restricted net assets. In addition, a review of the schedule should be made on a quarterly basis by a knowledgeable person well versed in not-for-profit accounting.

**OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013.

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**SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)**

***2013-1 Temporarily Restricted Net Assets (continued)***

***Management Response***

*Operation HOPE uses an accrual-based accounting system to track individual grant expenses. HOPE implemented two procedures to ensure a grant is not overcharged and that senior management is aware of balances remaining in restricted projects. These procedures include: 1) implementing a new feature to the job cost module that prevents any posting to a completed job, and 2) a monthly pro forma review of current grant awards by HOPE's three divisions heads.*

***2013-2 Segregation of Duties***

***Condition***

The Controller, who has overall financial responsibility, is authorized to sign checks under \$10,000, with only one signature required. The Controller is also able to wire funds from the Organization's bank accounts. The bank calls to confirm unusual wires, but the bank contacts the Controller on these issues.

***Criteria***

The Controller ideally should not be authorized to sign checks in order to properly segregate duties.

***Context***

Due to this condition, it is possible the same person would be approving and signing the check for the same invoice, as well as reviewing the resulting financial reports.

***Effect***

Lack of segregation of internal control duties.

***Cause of Condition***

Operation Hope, Inc. has a modest administrative and accounting staff.

## **OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013

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### **SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)**

#### ***2013-2 Segregation of Duties (continued)***

##### ***Recommendation***

Internal control procedures should be implemented to allow the Controller to only co-sign with another authorized signer and to never sign alone. In addition, the single signature threshold should be reduced from \$10,000 to \$5,000. A positive-pay type of agreement with the bank should also be instituted, whereby someone other than the Controller is notified of any large or unusual checks in the clearing process and provide an opportunity to deny payment on any check deemed inappropriate. A review of the current personnel and the accounting duties they are responsible for should be performed. Management and or the audit committee should isolate any incompatible accounting functions that are the responsibility of one employee and reassign responsibility for these duties, or create a supervisory review of those functions. A procedure should also be implemented whereby the bank confirms all wire transfers above a predetermined limit with another individual besides the Controller.

##### ***Management's Response***

*Management agrees that the segregation of duties is a vital component of internal controls and accounting. The Organization has a modest administrative and accounting staff, and as a result often times the administrative and accounting staff share duties and responsibilities. We will strive to maintain the segregation of duties when possible to ensure consistency in our procedures and practices. As often as possible, we will make it a best practice to have a different staff person complete the duties required. However, when it is not feasible we will ensure that there are proper protocol/procedures in place, and the staff are trained on them to ensure that the integrity of our procedures are maintained.*



**OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013

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**SECTION II – FINANCIAL STATEMENTS FINDINGS (Continued)**

***2013-2 Segregation of Duties (continued)***

***Management's Response (continued)***

*Because of travel requirements and outside duties of executive staff, to maintain segregation of duties for approvals and signing checks the Organization's processes are:*

- 1) Each invoice is approved and initialed by multiple authorized personnel. Authorized personnel includes the:
  - (a) Local manager*
  - (b) Program manager*
  - (c) Department manager*
  - (d) COA or COS**
- 2) The Organization's check stock is preprinted with the check number. Each check is accounted for during the monthly reconciliation.*
- 3) A payment list is generated weekly and presented at the Executive Management Committee (EMC) meeting for review and approval. The payment list is approved in the following order by the executive staff, CAO, President, and CEO.*
- 4) The available executive person signs the checks.*
- 5) All checks presented for signing are attached to the backup documentation for an additional review.*
- 6) Due to the Organization's activities, many invoices are between \$5,000 and \$10,000 and it would not be practical to require dual signatures.*
- 7) The Bank calls the Controller on all questionable checks and outgoing wires for confirmation before payment.*

**OPERATION HOPE, INC.**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2013

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

*None reported*

**Section IV— Prior Year Findings and Questioned Costs**

***2012-4 Timely Submission of Single Audit Report***

***Federal Program Information***

U.S. Department of Housing and Urban Development CFDA # 14.228 Community Development Block Grants - Louisiana Innovation Loan and Technical Assistance Program.

***Condition***

Under OMB Circular A-133 Subpart C.320(a), single audits are due nine months after the end of the organization's fiscal year. Under Louisiana Revised Statute 24:513, audits of grant recipients are due six months after the organization's year end.

***Criteria***

Controls should be established to ensure that Operation Hope, Inc. can complete the required audit and reporting in a reasonable time to allow for timely filing.

***Cause***

Inadequate controls to ensure compliance with annual federal awards reporting requirements resulted in delayed submission of single audit reports for the year ended December 31, 2011.

***Effect***

Delayed submission of single audit report for the year ended December 31, 2011.

***Recommendation***

Operation Hope, Inc. needs to improve internal controls to ensure timely resolution of accounting issues and timely completion of financial statements.

***Management's Response***

*Operation Hope, Inc. has hired an Assistant Controller to assist in preparing for the audit and in collecting outstanding supporting documentation. We fully expect to complete the single audit in the allotted time period.*

No similar finding was noted in the 2013 audit.